



Town of North Andover Quarterly Newsletter

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News from the Board of Selectmen and Town Manager

How is my Property Tax Bill Determined?

At first glance, one would think that the calculation of the Town's property tax bills would be a relatively straight forward process. This would seem especially true given that Proposition 2 ½, the landmark state referendum vote passed in 1980 which limited property tax increases, was intended to hold the line on tax increases. However, questions about tax bills are frequently asked and most boil down to something like this:

"I thought my tax bill was only allowed to go up 2.5% but it went up 3%! Not only that but I know other residents whose bill went down 3%. How can that happen?"

Unfortunately, while Proposition 2 ½ has been successful in limiting the growth in property taxes, it has also had the impact of turning what had previously been a relatively straightforward calculation (property value x tax rate = tax bill) into a very complex, highly technical and multi-variable equation. So how can you better understand how your property tax amounts are derived?

If one looks at property taxes as one views a pie, two questions come to mind: 1) How big the pie is or what is the size of our total **tax levy**, which is all property taxes collected in any one year, and 2) how the pie is sliced into **individual property tax bills**.

How Big is the Pie?

Each year the total tax levy is required by statute to be recalculated. The overall levy can increase or decrease depending upon three variables:

1. Proposition 2.5: An overall 2.5 % increase in total property taxes as authorized by Proposition 2 ½. This has the impact of increasing the tax levy from the previous year.
2. New Growth. New growth is another component of the property tax statute that adds to the levy any new construction undertaken in a community during the previous year. For example, the owners of a new home pay for any completed portion of that new construction, and this is added to the tax levy as well. If there is a lot of development in a community in any given year, the total tax levy will corre-

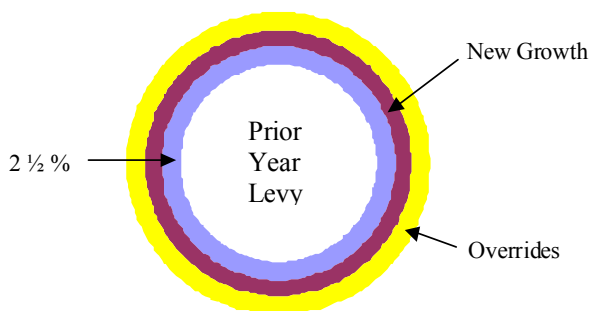
spondingly increase. North Andover has been fortunate in that in the past five years, certified new growth was approximately \$900,000 per year.

3. Overrides. The statute also provides for overrides or underides of Proposition 2.5. An **operational override**, such as the \$1.6 million passed by voters via referendum this past spring, allows the total tax levy to be increased beyond the 2.5%. This increase is permanent and is reflected on all future tax bills.

A **debt exclusion** override, again approved by voters via referendum, also impacts the overall levy. Unlike an operational override which is permanent, a debt exclusion override is billed only for the length of time the actual funds for the debt, typically for capital expenses, are owed. The effect of this variable, depending upon how the debt service is structured, is usually higher in initial years and then shrinks as the debt is paid down. A good example of this is the new High School: the tax levy grew to pay for increased debt, but now as the debt service becomes smaller, the levy is being reduced.

The interplay of these three variables in any year directly affects the size the levy pie can grow or shrink.

How the levy changes:



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News from the Board of Selectmen and Town Manager (continued)

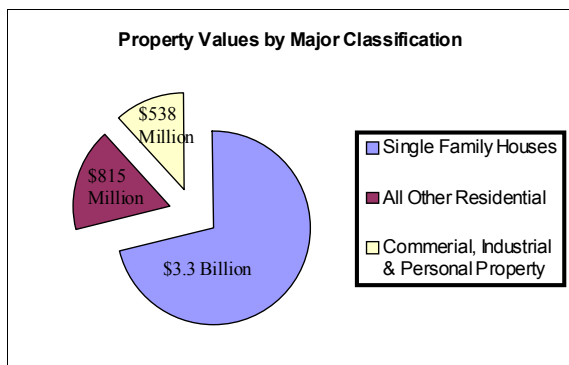
How is the Pie Sliced?

Once the size of the total levy is established, the amount of individual tax bills can be determined. This is where your **property valuation** comes into play. Under the basic tax formula (Total Valuation x Tax Rate = Levy) when the total levy amount is determined (see above) the two other components of

your tax bill must be adjusted to make the overall equation workable. Specifically, if the total valuation of the Town increases,

the tax rate must correspondingly decrease to generate the fixed levy amount. Conversely, when total valuation decreases, the tax rate must increase to generate the fixed levy amount. What is **total valuation**? This is a compilation of all the values of all the individual properties in North Andover. Individual property values go up and down depending upon the market. These market driven changes in property values result in adjustments to individual tax bills that do not necessarily follow changes in the total tax levy.

An example of this is the relative value of residential property compared to commercial and industrial property. From 1997 to 2006, the percentage of tax levy being generated from commercial and industrial property in North Andover has declined from 19% of the levy to 14%. However, this change is not attributable to a decline in the Town's commercial and industrial base, but rather the overall value of the residential property tax base has increased at a much higher rate than the commercial and industrial property. The end result is that residential taxpayers are paying an increasingly larger slice of the



total levy each year.

If the above is not confusing enough, the calculation of the tax bill is also based on the relative valuations of property within specific **classifications**. In recent years, the value of above average cost real estate has increased at a higher rate than the value of average priced housing stock. Once again, this results in a larger slice of the property tax levy being paid by one category of property taxpayers than another.

Last, the Board of Selectmen, within limits, may vote to establish separate tax rates for Commercial/Industrial Property other than those set for residential properties. This subject will be the topic of a future article.

In the end, Who Pays What?

The Answer is: It depends. The size of the tax levy in any particular year and the value of your property relative to other property owners impacts your individual property tax bill. In Fiscal Year 2007, the result of all of the variables discussed above resulted in the tax levy being decreased because a portion of the debt for the High School was paid off and thus reducing the levy. However, because of shifts in valuation, 30 % of residential property tax payers experienced an increase in their tax bills, while the other 70% witnessed no change or a reduced amount.

In summary, you can see that the property tax bills are a complicated matter. Hopefully, this will provide a basic understanding of the concepts and array of factors considered when determining how taxes are calculated, consistent with State law, in our community. Should you have any questions regarding how your tax bill is calculated please contact the North Andover Board of Assessors located at the Town Hall, 120 Main Street, North Andover or by calling 978-688-9566. You can also view property valuation information by going to the Town's website www.townofnorthandover.com clicking on "Town Departments" and then clicking on "Assessor".

News from the School Department

With summer ending, there is the stirring of activities that mark the beginning of a new school year. Pre-season practice has begun for fall sports teams, the marching band has been on the field learning their routines, and the high school completed orientation meetings with 9th graders and their parents. A new school year offers the promise of new experiences, an opportunity to reconnect with classmates and friends, and the challenge of personal accomplishments that lie ahead; it's a very exciting time.

We are also pleased to report that with increased funding from the town and support from the School Committee, we are able to reduce class size at the high school, restore a library position and some exploratory offerings at the middle school, reduce class sizes at the elementary level, and provide staffing for our special education programs. This will have a positive

impact on every student in the North Andover Public Schools.

Throughout the summer, a great deal of time was spent preparing programs and hiring new staff. As a result of budget increases and retirements or resignations, we have hired nearly sixty teachers and six administrators who are new to the school system. Hiring sixty teachers is a daunting task and credit goes to the principals who have worked very hard to fill each position with a strong, energized, and committed teacher. I am pleased to report that most classroom positions have been filled and orientation sessions for the new staff are under way.

A special note of appreciation goes to the custodians and secretaries whose work is critical to the safe, clean, orderly running of our schools. Under the leadership of our talented principals, we had a wonderful opening of school and very much look forward to a terrific school year.